

UNIVERSITY OF SOUTH CAROLINA - AIKEN

REPORT ON FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2011**

UNIVERSITY OF SOUTH CAROLINA - AIKEN

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Board of Trustees
University of South Carolina
Columbia, South Carolina

We have audited the accompanying financial statements of the business-type activities of the University of South Carolina - Aiken (the Campus), a campus of the University of South Carolina (the University) as of and for the year ended June 30, 2011, which collectively comprise the Campus' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Campus. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Campus are intended to present the financial position, and changes in financial position and cash flows, of only that portion of the business-type activities of the University that is attributable to the transactions of the Campus. They do not purport to, and do not, present fairly the financial position of the University as of June 30, 2011, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the Campus as of June 30, 2011, and the changes in financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2011 on our consideration of the Campus' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However we did not audit the information and express no opinion on it.

Elliott Davis, LLC

Columbia, South Carolina
December 7, 2011

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Management's Discussion and Analysis
(Unaudited)

Overview of the Financial Statements and Financial Analysis

The University of South Carolina - Aiken (the Campus) is pleased to present its financial statements for fiscal year 2011. While audited financial statements for fiscal year 2010 are not presented with this report, condensed operations and financial position data will be presented in this section in order to illustrate certain increases and decreases. However, the emphasis of discussions about these statements will be on current year data.

This report consists of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board (GASB) Codification Sections 2100-2900, *Financial Reporting* and Co5, *Colleges and Universities*. The financial statements presented focus on the financial condition of the Campus, the results of operations, and cash flows of the Campus as a whole.

There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and, the Statement of Cash Flows. These statements present financial information in a format similar to that used by private corporations. The Campus' net assets (the difference between assets and liabilities) are one indicator of the improvement or erosion of the Campus' financial health when considered with non-financial facts such as enrollment levels and the condition of the facilities.

This discussion and analysis of the Campus' financial statements provides an overview of its financial activities for the year.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the Campus as of the end of the fiscal year. The Statement of Net Assets is a point of time financial statement. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of the Campus. The Statement of Net Assets presents end-of-year data concerning Assets (property that we own and what we are owed by others), Liabilities (what we owe to others and have collected from others before we have provided the service), and Net Assets (assets minus liabilities). It is prepared under the accrual basis of accounting, where revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service to us, regardless of when cash is exchanged.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors, investors, and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets and their availability for expenditure by the institution.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the institution's equity in property, plant, and equipment owned by the institution. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. Restricted nonexpendable net assets consist solely of the Campus' permanent endowment funds and are only available for investment purposes. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the institution.

- Total assets of the Campus increased by \$1.5 million. Capital assets decreased \$2.0 million and current assets increased by \$3.4 million due to the increase in unrestricted net assets.
- The approximate \$767,000 decrease in noncurrent liabilities is attributable to the scheduled payments of long term bonds.
- Net assets of the Campus increased during the year by \$1.9 million. The increase is driven by the increase in unrestricted net assets.

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Management's Discussion and Analysis
(Unaudited)

Summary of Net Assets	2011	2010	Increase/ (Decrease)	Percent Change
Assets				
Current assets	\$ 15,237,315	\$ 11,809,163	\$ 3,428,152	29.03%
Capital assets, net	79,146,253	81,122,365	(1,976,112)	(2.44%)
Other noncurrent assets	<u>1,242,031</u>	<u>1,240,450</u>	<u>1,581</u>	0.13%
Total assets	<u>95,625,599</u>	<u>94,171,978</u>	<u>1,453,621</u>	1.54%
Liabilities				
Current liabilities	4,160,941	3,851,226	309,715	8.04%
Noncurrent liabilities	<u>40,830,569</u>	<u>41,597,561</u>	<u>(766,992)</u>	(1.84%)
Total liabilities	<u>44,991,510</u>	<u>45,448,787</u>	<u>(457,277)</u>	(1.01%)
Net assets				
Invested in capital assets, net of related debt	37,853,399	39,205,437	(1,352,038)	(3.45%)
Restricted - nonexpendable	267,871	267,871	-	0.00%
Restricted - expendable	2,749,132	1,907,423	841,709	44.13%
Unrestricted	<u>9,763,687</u>	<u>7,342,460</u>	<u>2,421,227</u>	32.98%
Total net assets	<u>\$ 50,634,089</u>	<u>\$ 48,723,191</u>	<u>\$ 1,910,898</u>	3.92%

Unrestricted net assets result from accumulated excesses of revenue over expenses derived from Campus current fund operations. The Campus' unrestricted current funds are derived from state appropriations, student fees, institutional revenue and auxiliary operations that are not restricted for specific purposes. Unrestricted net assets include balances from operations of Education and General (E&G) activities, auxiliary enterprises, quasi-endowments and unexpended plant funds. Although unrestricted net assets are not subject to externally imposed stipulations, most of these resources have been committed for specific Campus activities including academic and research programs, capital projects, and significant upgrades to the campus technology network.

Unrestricted net assets increased by \$2.4 million, based on the following:

- Education and general - increase of \$2.7 million due to additional tuition collections from tuition increases and higher student enrollments. Despite a reduction of state appropriations for the Campus totaling \$5.2 million since the 2008 fiscal year, no mid-year reductions were made in the 2011 fiscal year. Academic funds remain available to support faculty hiring and associated start up costs.

- With the availability of \$1.6 million in stimulus funding for the State Fiscal Stabilization Funds, the Campus experienced an increase in operating funds carried forward as some recurring expenditures were covered with one-time Federal funds.
- Unrestricted net assets from auxiliary enterprises reduced by approximately \$200,000 from fiscal year 2010. University housing utilized \$240,000 to support maintenance projects.

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year. Activities are reported as either operating or non-operating. A public university's dependency on state aid and gifts will result in operating deficits. The GASB requires state appropriations and gifts to be classified as non-operating revenues. The utilization of long-lived assets, referred to as Capital Assets, is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Management's Discussion and Analysis
(Unaudited)

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Assets. The purpose of the statement is to present the revenues received by the institution, both operating and non-operating, and the expenses paid by the institution, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the institution.

Operating revenues are received for providing goods and services to the various customers and constituencies of the institution. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Non-operating revenues are revenues received for which goods and services are not provided. State capital appropriations and capital grants and gifts are considered neither operating nor non-operating revenues and are reported after "Income before other revenues, expenses, gains or losses".

The Statement of Revenues, Expenses and Changes in Net Assets reflects a positive year with an increase in Net Assets at the end of the year. Some highlights of the information presented on this Summary are as follows:

- A net \$1.0 million increase in student tuition and fees, an increase of approximately \$232,000 in sales and services of educational and other activities, and an approximate \$661,000 increase in federal grants and contracts were largely responsible for the overall \$1.4 million increase in operating revenues. The increase in student tuition and fees is due both to enrollment and tuition increases of 6 percent. The tuition increase is necessary for meeting the Campus' mission and strategic goals especially as state appropriations decline.
- Operating expenses increased approximately \$913,000 and 2.25 percent. The increased expenditures reflect the recalibration of the operating budget to the mission following the financial downturn. Reduced expenditures in salaries and wages indicate no state pay package for employees, but do show increased employee benefits due to changes in the state health insurance. Services and supplies increased by approximately \$674,000 reflecting use of Federal Stimulus funding and the impact of inflation on materials.
- Net nonoperating revenues increased \$1.4 million despite a 22% reduction in state appropriations for the 2011 fiscal year. The State Fiscal Stabilization Funds from the Federal stimulus are recorded as nonoperating Federal grants. The full \$1.6 million available for 2011 and the balance carried over from the prior year were utilized in 2011. Also included as nonoperating Federal grants is additional Pell Grant revenue of approximately \$763,000 more than the prior year.

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Management's Discussion and Analysis
(Unaudited)

**Summary of Revenues, Expenses
and Changes in Net Assets**

	2011	2010	Increase/ (Decrease)	Percent Change
Operating Revenues:				
Student tuition and fees, net	\$ 13,294,757	\$ 12,280,349	\$ 1,014,408	8.26%
Federal grants and contracts	1,594,975	933,560	661,415	70.85%
State grants and contracts	6,692,772	6,721,437	(28,665)	(0.43%)
Local grants and contracts	192,157	282,423	(90,266)	(31.96%)
Nongovernmental grants and contracts	150,598	148,409	2,189	1.47%
Sales and services of educational and other activities	1,884,814	1,652,470	232,344	14.06%
Sales and services of auxiliary enterprises, net	5,567,460	5,702,750	(135,290)	(2.37%)
Interest collected on student loans	9,430	10,663	(1,233)	(11.56%)
Other fees	125,695	164,123	(38,428)	(23.41%)
Other operating revenues	<u>146,909</u>	<u>399,266</u>	<u>(252,357)</u>	<u>(63.21%)</u>
Total operating revenues	<u>29,659,567</u>	<u>28,295,450</u>	<u>1,364,117</u>	<u>4.82%</u>
Operating Expenses:				
Salaries and wages	19,931,178	20,090,823	(159,645)	(0.79%)
Fringe benefits	5,684,387	5,581,127	103,260	1.85%
Services and supplies	9,827,631	9,153,878	673,753	7.36%
Utilities	1,713,505	1,643,691	69,814	4.25%
Scholarships and fellowships	1,055,382	913,858	141,524	15.49%
Depreciation expense	<u>3,185,099</u>	<u>3,101,088</u>	<u>84,011</u>	<u>2.71%</u>
Total operating expenses	<u>41,397,182</u>	<u>40,484,465</u>	<u>912,717</u>	<u>2.25%</u>
Operating loss	<u>(11,737,615)</u>	<u>(12,189,015)</u>	<u>451,400</u>	<u>(3.70%)</u>
Net nonoperating revenues	<u>14,097,923</u>	<u>12,708,258</u>	<u>1,389,665</u>	<u>10.94%</u>
Income before other revenues and transfers	2,360,308	519,243	1,841,065	354.57%)
Other revenues and transfers	<u>(449,410)</u>	<u>236,423</u>	<u>(685,833)</u>	<u>(290.09%)</u>
Increase in net assets	1,910,898	755,666	1,155,232	152.88%
Net assets at beginning of year	<u>48,723,191</u>	<u>47,967,525</u>	<u>755,666</u>	<u>1.58%</u>
Net assets at end of year	<u>\$ 50,634,089</u>	<u>\$ 48,723,191</u>	<u>\$ 1,910,898</u>	<u>3.92%</u>

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Management's Discussion and Analysis
(Unaudited)

Statement of Cash Flows

The final statement presented is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Capital Asset and Debt Administration

During the year, the Campus did not begin or complete any major capital projects.

The Campus's indebtedness consists of bonds payable of \$40,385,000 and notes payable of approximately \$394,000.

Economic Outlook

The economic position of the Campus continues to be loosely tied to that of the State of South Carolina as evidenced by the Campus' sustained strong financial performance despite significant reductions in state appropriations. The state closed the fiscal year 2011 with a surplus for the second straight year. The Campus received a significant state funding reduction to begin the 2011 year totaling \$1.6 million. Along with all public higher education institutions in South Carolina, the Campus received a 6% state appropriations reduction to begin the 2012 fiscal year. Based on a strong start to the current fiscal year it does not appear likely that the Campus will receive mid-year cuts. However, due to the annualizations of entitlement programs and the ongoing need to fund K-12 education, planning is underway to budget another recurring reduction in state funding to start the 2013 fiscal year based on preliminary indications from the State.

The University's overall financial position remains strong, despite reductions in state appropriations. The University

relies on tuition and fees to support the general operating budget and is aware of state funding support when tuition and fees are set. Tuition increases for the 2012 year were above the Higher Education Price Index (HEPI) but did not replace the full impact of state budget reduction to cover all inflationary needs. Resident undergraduate tuition for the Campus is lower than all other comparable institutions in South Carolina except for the Beaufort Campus. Demand for enrollment and interest in the Campus remains steady for Fall 2011.

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Statement of Net Assets
June 30, 2011

ASSETS

Current assets:

Cash and cash equivalents	\$ 10,994,264
Accounts receivable, net	800,804
Student loans receivable, current	200
Inventories	351,940
Prepaid items	115,401
Restricted - cash and cash equivalents	2,899,642
Funds due from others	<u>75,064</u>
Total current assets	<u>15,237,315</u>

Noncurrent assets:

Notes receivable	200,000
Restricted - cash and cash equivalents	181,194
Restricted - federal student loans receivable	860,837
Capital assets, net of accumulated depreciation	<u>79,146,253</u>
Total noncurrent assets	<u>80,388,284</u>

Total assets

95,625,599

LIABILITIES

Current liabilities:

Accounts payable	410,472
Retainage payable	10,758
Accrued interest payable	241,130
Accrued payroll and related liabilities	129,716
Accrued compensated absences - current portion	479,919
Long-term debt - current portion	1,848,399
Deferred revenues	872,712
Deposits	117,110
Other liabilities	1,077
Funds held for others	<u>49,648</u>
Total current liabilities	<u>4,160,941</u>

Noncurrent liabilities:

Accrued compensated absences	541,185
Federal loan liability	844,929
Long-term debt	<u>39,444,455</u>
Total noncurrent liabilities	<u>40,830,569</u>

Total liabilities

44,991,510

NET ASSETS

Invested in capital assets, net of related debt	37,853,399
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Restricted for:

Nonexpendable	267,871
Expendable	
Scholarships, research, instruction, and other	497,760
Loans	128,254
Capital projects	2,044,158
Debt service	78,960

Unrestricted	<u>9,763,687</u>
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Total net assets

\$ 50,634,089

See accompanying notes to the financial statements which are an integral part of these statements.

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Statement of Revenues, Expenses and Changes in Net Assets
For the year ended June 30, 2011

OPERATING REVENUES

Student tuition and fees (\$1,322,674 pledged for bonds)	\$ 27,002,406
Less scholarship allowance	(13,707,649)
Federal grants and contracts	1,594,975
State grants and contracts	6,692,772
Local grants and contracts	192,157
Nongovernmental grants and contracts	150,598
Sales and services of educational and other activities	1,884,814
Sales and services of auxiliary enterprises (\$2,486,856 pledged for bonds)	6,282,125
Less scholarship allowance	(714,665)
Interest collected on student loans	9,430
Other fees	125,695
Other operating revenues	146,909
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Total operating revenues	29,659,567

OPERATING EXPENSES

Salaries and wages	19,931,178
Fringe benefits	5,684,387
Services and supplies	9,827,631
Utilities	1,713,505
Scholarships and fellowships	1,055,382
Depreciation expense	3,185,099
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Total operating expenses	41,397,182
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Operating loss	(11,737,615)

NONOPERATING REVENUES (EXPENSES)

State appropriations	6,542,478
Federal grants	8,253,027
Gifts	1,077,245
Investment income	81,786
Endowment income	33,127
Loss on disposal of capital assets	(31,632)
Interest on capital asset related debt	(1,858,108)
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Net nonoperating revenues	14,097,923
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Income before other revenues and transfers	2,360,308
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Transfers to other campuses, net	(449,410)
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Change in net assets	1,910,898
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NET ASSETS, BEGINNING OF YEAR	48,723,191
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NET ASSETS, END OF YEAR	\$ 50,634,089

See accompanying notes to the financial statements which are an integral part of these statements.

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Statement of Cash Flows
For the year ended June 30, 2011

OPERATING ACTIVITIES

Student tuition and fees	\$ 13,324,821
Research grants and contracts	8,935,577
Sales and services of educational and other activities	1,909,082
Sales and services of auxiliary enterprises	5,568,141
Student loans disbursed	(196,031)
Student loans collected	127,720
Interest collected on student loans	9,430
Inflows from federal family education loans	16,082,954
Outflows from federal family education loans	(16,303,254)
Payments to employees for services	(19,928,737)
Payments to employees for benefits	(5,687,046)
Payments to suppliers	(11,491,338)
Payments to students for scholarships and fellowships	(1,055,382)
Other receipts	272,609
Inflows from agency funds	43,149
Outflows from agency funds	(40,087)
Net cash used for operating activities	<u>(8,428,392)</u>

NONCAPITAL FINANCING ACTIVITIES

State appropriations	6,542,478
Federal grants	8,253,027
Gifts	1,060,229
Transfers to other state funds/campuses, net	(444,696)
Federal loan liability	4,636
Net cash provided by noncapital financing activities	<u>15,415,674</u>

CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from capital debt	1,719,362
Purchase and construction of capital assets	(1,206,438)
Principal paid on capital asset related debt	(2,368,381)
Interest paid on capital asset related debt	(1,840,585)
Net cash used for capital and related financing activities	<u>(3,696,042)</u>

INVESTING ACTIVITIES

Investment income	92,280
Endowment income	33,127
Net cash provided by investing activities	<u>125,407</u>
Net increase in cash and cash equivalents	<u>3,416,647</u>

Cash and cash equivalents, beginning of year

10,658,453

Cash and cash equivalents, end of year

\$ 14,075,100

Reconciliation of cash and cash equivalents

Cash and cash equivalents	\$ 10,994,264
Restricted - cash and cash equivalents, current	2,899,642
Restricted - cash and cash equivalents, noncurrent	181,194
	<u>\$ 14,075,100</u>

UNIVERSITY OF SOUTH CAROLINA - AIKEN
Statement of Cash Flows
For the year ended June 30, 2011

Reconciliation of net operating loss to net cash used for operating activities

Operating loss	\$ (11,737,615)
Adjustments to reconcile operating loss to net cash used for operating activities	
Depreciation expense	3,185,099
Student loans cancelled	8,343
Change in current assets and liabilities	
Accounts receivable, net	56,628
Student loans receivable	(68,311)
Inventories	59,716
Prepaid items	(18,277)
Accounts payable	(1,875)
Retainage payable - non-capital	1,891
Accrued payroll	(11,401)
Accrued benefits	(2,659)
Accrued annual leave and related liabilities	13,842
Deferred revenues	301,945
Deposits	1,535
Other liabilities	(15)
Funds held for others	(217,238)
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Net cash used for operating activities	<u>\$ (8,428,392)</u>

See accompanying notes to the financial statements which are an integral part of these statements.

UNIVERSITY OF SOUTH CAROLINA - AIKEN

Notes to Financial Statements

Note 1 - Summary Of Significant Accounting Policies

Nature of Operations

The University of South Carolina - Aiken (the Campus) is a State-supported, coeducational institution of higher education and is one of eight campuses of the University of South Carolina (the University). The Campus' primary purpose is to provide undergraduate education to students and conduct research and other activities that advance fundamental knowledge.

Reporting Entity

The financial reporting entity, as defined by Governmental Accounting Standards Board (GASB) Codification Section 2100, *Defining the Financial Reporting Entity*, consists of the primary government, organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the financial statements to be misleading or incomplete.

The University is a department of the State of South Carolina because it is financially accountable to and fiscally dependent on the State. Its Board of Trustees is appointed by the Governor and/or the General Assembly of the State.

Financial Statements

The financial statement presentation for the Campus meets the requirements of GASB Codification Sections 2100-2900, *Financial Reporting*, and Co5, *Colleges and Universities*. The financial statement presentation provides a comprehensive, entity-wide perspective of the Campus' net assets, revenues, expenses and changes in net assets and cash flows.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Significant estimates used include separation of accrued compensated absences between current and non-current and depreciation expense. Actual results could differ from those estimates.

Basis of Accounting

For financial reporting purposes, the Campus is considered a special-purpose government engaged only in business-type activities. Accordingly, the Campus' financial statements have been presented using the economic resources

measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. Student tuition and auxiliary enterprise fees are presented net of scholarships and fellowships applied to student accounts, while stipends and other payments made directly are presented as scholarship and fellowship expenses. All significant intra-agency transactions have been eliminated.

The Campus has elected not to apply *Financial Accounting Standards Board* (FASB) pronouncements issued after November 30, 1989.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Campus considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested through the State of South Carolina State Treasurer's Office cash management pool are considered cash equivalents. Restricted cash and cash equivalents are comprised of bond proceeds, debt service funds and externally restricted funds.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the Campus' grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Inventories

Inventories are carried at the lower of cost or market as determined by various methods.

Noncurrent Cash and Investments

Noncurrent cash and investments primarily consist of permanently endowed funds and federal student loan funds. These funds are externally restricted and are classified as noncurrent assets in the statement of net assets.

Prepaid Items

Expenditures for services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. Amounts reported in this asset account consist primarily of rent, subscriptions, library periodicals, maintenance and service agreements, and travel reservations and deposits.

UNIVERSITY OF SOUTH CAROLINA - AIKEN

Notes to Financial Statements

Capital Assets

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. The Campus follows capitalization guidelines established by the State of South Carolina. All land is capitalized, regardless of cost. Qualifying improvements that rest in or on the land itself are recorded as depreciable land improvements. Major additions and renovations and other improvements that add to the usable space, prepare existing buildings for new uses, or extend the useful life of an existing building are capitalized. The Campus capitalizes movable personal property with a unit value in excess of \$5,000 and a useful life in excess of two years and depreciable land improvements, buildings and improvements, and intangible assets costing in excess of \$100,000. Routine repairs and maintenance and library materials, except individual items costing in excess of \$5,000, are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and improvements and land improvements and 2 to 25 years for machinery, equipment, and vehicles. A full year of depreciation is taken the year the asset is placed in service and no depreciation is taken in the year of disposition.

The Campus capitalizes as a component of construction in progress interest cost in excess of earnings on invested debt proceeds associated with the capital projects. Therefore asset values in capital assets include such interest costs. There was no capitalized interest for the fiscal year 2011.

Deferred Revenues and Deposits

Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Deposits represent dormitory room deposits, security deposits for possible room damage and key loss, and other miscellaneous deposits. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the forfeit terms of the agreement.

Compensated Absences

Employee vacation pay expense is accrued at year-end for financial statement purposes. The liability and expense incurred are recorded at year-end as accrued compensated

absences in the statement of net assets, and as a component of compensation and benefit expense in the statement of revenues, expenses and changes in net assets.

Noncurrent Liabilities

Noncurrent liabilities include (1) principal amounts of bonds payable and notes payable (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year; and (3) other liabilities that, although payable within one year, are to be paid from funds that are classified as noncurrent assets.

Net Assets

The Campus' net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the Campus' total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been received but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets - expendable: Restricted expendable net assets include resources in which the Campus is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net assets - nonexpendable: Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets: Unrestricted net assets represent resources derived from student tuition and fees, appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the Campus, and may be used at the discretion of the governing board to meet current expenses for any purpose.

The Campus policy for applying expenses that can use both restricted and unrestricted resources is delegated to the departmental administrative level. General practice is to first apply the expense to restricted resources then to unrestricted resources.

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Income Taxes

The University is a department of the State of South Carolina and, is therefore, generally exempt from federal and state income taxes under applicable federal and state statutes and regulations on related income. Certain activities of the Campus may be subject to taxation as unrelated business income.

Classification of Revenues

The Campus has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues: Operating revenues generally result from exchange transactions to provide goods or services related to the Campus' principal ongoing operations.

These revenues include:

- (1) student tuition and fees received in exchange for providing educational services, housing, and other related services to students;
- (2) receipts for scholarships including federal grants and contract revenue where the governmental agency has identified the qualified student recipients;
- (3) fees received from organizations and individuals in exchange for miscellaneous goods and services provided by the Campus; and
- (4) grants and contracts that are essentially the same as contracts for services that finance programs the Campus would not otherwise undertake.

Nonoperating revenues: Nonoperating revenues include activities that have the characteristics of nonexchange transactions. These revenues include gifts and contributions, appropriations, investment income, and any grants and contracts that are not classified as operating revenue or restricted by the grantor to be used exclusively for capital purposes.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the Campus, and the amount that is paid by students and/or third parties making payments on the students' behalf.

Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the Campus' financial statements.

To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the Campus has recorded a scholarship discount and allowance.

Rebatable Arbitrage

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate of return, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from these earnings exceeds the effective yield on the related tax-exempt debt issued.

Governmental units that issue no more than \$5 million in total of all such debt in a calendar year are exempt from the rebate requirements. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. Rebates are payable every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. Management believes that the Campus has no rebatable arbitrage liability at June 30, 2011.

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Notes to Financial Statements

Note 2 - Cash and Cash Equivalents, Other Deposits, and Investments

Most deposits and investments of the Campus are under the control of the State Treasurer who, by law, has sole authority for investing State funds. As permitted, certain deposits and investments are deposited with or managed by financial institutions and brokers as restricted by donors.

The following schedule reconciles deposits and investments within the notes to the statement of net assets amounts:

Statement of Net Assets		Notes	
Cash and cash equivalents (current)	\$ 10,994,264	Cash on hand	\$ 12,530
Restricted cash and cash equivalents for (current):		Deposits held by State Treasurer	14,062,291
Debt service	317,661	Other deposits	<u>279</u>
Scholarship, research, instruction, and other	484,688		
Capital projects	2,097,293		
Restricted cash and cash equivalents (non-current):			<u>\$ 14,075,100</u>
Endowments	67,871		
Federal student loans	<u>113,323</u>		
	<u>\$ 14,075,100</u>		

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's deposits and investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

With respect to the investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and the credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

Other Deposits

The Campus' other deposits at year-end were entirely covered by federal depository insurance or were fully collateralized by securities held by the pledging bank's trust department.

Note 3 - Receivables

Accounts Receivable

Accounts receivable consisted of the following:

Students and sponsors	\$ 497,144
Auxiliary enterprises	184,401
Federal grants and contracts	139,210
Non-governmental grants and contracts	14,623
Accrued interest	<u>48,492</u>
	883,870
Less allowance for doubtful accounts	<u>(83,066)</u>
Accounts receivable, net	<u>\$ 800,804</u>

Allowances for losses are based upon actual losses experienced in prior years and evaluations of the current accounts.

Student Loans Receivable

Student loans made through the Federal Perkins and the Federal Nursing and Health Professions loan programs comprise substantially all of the student loans receivable, and are restricted for such loans. The loan programs provide various repayment options: students have the right to repay the loans over periods up to 10 years depending on the amount of the loan and loan cancellation privileges the student may exercise.

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The amount reported as a federal loan liability is the amount of federal contributions and net earnings on the loans that would have to be repaid to the federal government if the Campus ceased to participate in the programs.

As the Campus determines that loans are uncollectible, the loans are assigned to the federal agency administering the loan programs.

Notes Receivable

As authorized by South Carolina Code of Laws, the Campus may lend certain of its endowment and auxiliary funds to

the University of South Carolina Educational Foundation, a related party. Under the terms of the agreement, the Campus will earn interest on the principal and cumulative interest balance at a monthly rate as determined by the State Treasurer.

The principal balance of \$200,000 and the related cumulative accrued interest receivable of \$28,189 respectively are included in the Notes Receivable and Accounts Receivable, net.

Note 4 - Capital Assets

	June 30, 2010	Additions	Reductions	June 30, 2011
Capital assets not being depreciated:				
Land and improvements	\$ 619,517	\$ -	\$ -	\$ 619,517
Construction in progress	797,179	387,453	409,075	775,557
Total capital assets not being depreciated	1,416,696	387,453	409,075	1,395,074
Other capital assets:				
Land improvements	2,351,782	422,439	-	2,774,221
Buildings and improvements	106,285,941	16,102	29,466	106,272,577
Machinery, equipment, and other	4,038,632	807,469	162,950	4,683,151
Vehicles	337,703	16,231	17,710	336,224
Total capital assets at historical cost	113,014,058	1,262,241	210,126	114,066,173
Less accumulated depreciation for:				
Land improvements	1,797,871	61,518	-	1,859,389
Buildings and improvements	27,995,453	2,807,485	-	30,802,938
Machinery, equipment, and other	3,217,299	295,252	160,784	3,351,767
Vehicles	297,766	20,844	17,710	300,900
Total accumulated depreciation	33,308,389	3,185,099	178,494	36,314,994
Other capital assets, net	79,705,669	(1,922,858)	31,632	77,751,179
Capital Assets, Net	\$ 81,122,365	\$ (1,535,405)	\$ 440,707	\$ 79,146,253

Note 5 - Pension Plans

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan.

Employee and employer contribution rates for the South Carolina Retirement System and the Police Officers Retirement System are actuarially determined. Annual benefits, payable monthly for life, are based on length of service and on average final compensation.

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Notes to Financial Statements

South Carolina Retirement System

The majority of employees of the Campus are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Since July 1, 2006, employees participating in the SCRS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2010, the employer contribution rate became 13.14 percent which included a 3.9 percent surcharge to fund retiree health and dental insurance coverage. The Campus' actual contributions to the SCRS for the three most recent fiscal years ending June 30, 2011, 2010, and 2009, were \$1,087,000, \$1,186,000, and \$1,227,000, respectively, and equaled the required contributions of 9.24 percent (excluding the surcharge) for each year. Also, the Campus paid employer group-life insurance contributions of \$18,000 in the current fiscal year at the rate of .15 percent of compensation.

Police Officers Retirement System

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement plan administered by the Retirement Division. Generally all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group-life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5 percent of all compensation. Effective July 1, 2010, the employer contribution rate became 15.03 percent which, as for the SCRS, includes the 3.90 percent surcharge. The Campus' actual contributions

to the PORS for the years ending June 30, 2011, 2010, and 2009 were \$30,000, \$29,000, and \$30,000, respectively, and equaled the required contributions of 11.13 percent (excluding the surcharge) for each year. Also, the Campus paid employer group-life insurance contributions of \$500 and accidental death insurance contributions of \$500 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20 percent of compensation.

Optional Retirement Program

State employees may elect to participate in the Optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts which are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

ORP participation is available to all employees who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must waive SCRS membership within their first thirty days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 9.24 percent plus the retiree surcharge of 3.90 percent from the employer in fiscal year 2011.

Certain of the Campus' employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were \$563,000 (excluding the surcharge) from the Campus as employer and \$397,000 from its employees as plan members. In fiscal year 2011, the Campus paid \$9,000 for group-life insurance coverage for these employees. All amounts were remitted directly to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

Deferred Compensation Plans

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Campus have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of

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Notes to Financial Statements

the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

Teacher and Employee Retention Incentive

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Participants who entered the TERI program prior to July 1, 2005 do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits. Participants who entered the TERI program as of July 1, 2005 or after are required to make SCRS contributions but do not earn service credit, and are ineligible to receive disability retirement benefits.

Note 6 - Postemployment And Other Employee Benefits

Plan Description

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides post-employment health and dental and long-term disability benefits to retired State and school district employees and their covered dependents. The Campus contributes to the Retiree Medical Plan (RMP) and the Long-term Disability Plan (LTDP), cost-sharing multiple-employer defined benefit postemployment healthcare and long-term disability plans administered by the Employee Insurance Program (EIP), a part of the State Budget and Control Board (SBCB). Generally, retirees are eligible for the health and dental benefits if they have established at least ten years of retirement service credit. For new hires May 2, 2008 and after, retirees are eligible for benefits if they have established twenty-five years of service for 100% employer funding and fifteen through twenty-four years of service for 50% employer funding. Benefits become effective when the former employee retires under a State retirement system. Basic long-term disability (BLTD) benefits are provided to

active state, public school district and participating local government employees approved for disability.

Funding Policies

Section 1-11-710 and 1-11-720 of the South Carolina Code of Laws of 1976, as amended, requires these postemployment healthcare and long-term disability benefits be funded through annual appropriations by the General Assembly for active employees to the EIP and participating retirees to the SBCB except the portion funded through the pension surcharge and provided from other applicable sources of the EIP for its active employees who are not funded by State General Fund appropriations. Employers participating in the RMP are mandated by State statute to contribute at a rate assessed each year by the Office of the State Budget, 3.90% of annual covered payroll for 2011. The EIP sets the employer contribution rate based on a pay-as-you-go basis. The Campus paid approximately \$707,000 applicable to the surcharge included with the employer contribution for retirement benefits for the fiscal year ended June 30, 2011. BLTD benefits are funded through a per person premium charged to State agencies, public school districts, and other participating local governments. The monthly premium per active employee paid to EIP was \$3.23 for the fiscal year ended June 30, 2011.

Effective May 1, 2008 the State established two trust funds through Act 195 for the purpose of funding and accounting for the employer costs of of retiree health and dental insurance benefits and long-term disability insurance benefits. The South Carolina Retiree Health Insurance Trust Fund is primarily funded through the payroll surcharge. Other sources of funding include additional State appropriated dollars, accumulated EIP reserves, and income generated from investments. The Long Term Disability Insurance Trust Fund is primarily funded through investment income and employer contributions.

One may obtain complete financial statements for the benefit plans and the trust funds from Employee Insurance Program, 1201 Main Street, Suite 360, Columbia, SC 29201.

Note 7 - Contingencies, Litigation, And Project Commitments

The Campus is party to various lawsuits arising out of the normal conduct of its operations. In the opinion of Campus management, there are no material claims or lawsuits against the Campus that are not covered by insurance or whose settlement would materially affect the Campus' financial position.

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The Campus participates in certain Federal grant programs. These programs are subject to financial and compliance audits by the grantor or its representative. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. Management believes disallowances, if any, will not be material.

The Campus had outstanding commitments under construction contracts of \$78,483 for capital and \$488,198 for noncapital projects. The Campus anticipates funding these projects out of current resources, current and future bond issues, private gifts, student fees, and state capital improvement bond proceeds.

Note 8 - Lease Obligations

The Campus does not have any noncancelable operating leases having remaining terms of more than one year. Total payments for a year to year operating lease were \$32,000

for fiscal year 2011. In the current fiscal year, the Campus incurred expenses of \$85,079 for office copier contingent rentals on a cost per copy basis.

Note 9 - Bonds and Notes Payable

Bonds Payable

Bonds payable consisted of the following:

	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>Balance</u>
State Institution Bonds			
Series 1996B	5.0%	04/01/16	\$ 325,000
Series 2001B	4.5%	07/01/11	55,000
Series 2002E	3.50% to 5.0%	09/01/22	1,340,000
Series 2006B	3.25% to 5.25%	04/01/26	5,535,000
Series 2009B	3.0% to 5.0%	04/01/29	2,305,000
Series 20011A Refunding	2.0% to 5.0%	03/01/22	675,000
Series 2011E	2.0% to 5.0%	03/01/31	<u>860,000</u>
Total State Institution Bonds			<u>11,095,000</u>
Revenue Bonds			
Series 1999A	4.70% to 5.0%	06/01/19	2,545,000
Series 2006A	4.0% to 4.375%	06/01/26	11,440,000
Series 2008A	3.25% to 5.25%	06/01/38	<u>15,305,000</u>
Total Revenue Bonds			<u>29,290,000</u>
Total Bonds Payable			<u>\$ 40,385,000</u>

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Notes to Financial Statements

State institution bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Tuition fees are pledged up to the amount of the annual debt requirements for the payment of principal and interest on state institution bonds. The annual legal debt margin for state institution bonds shall not exceed ninety percent of the sums received from tuition fees for the preceding fiscal year.

Tuition fees used to calculate the Campus' debt service limit on bonded indebtedness for the preceding year were \$1,297,186, which results in a legal annual debt service at June 30, 2011 of \$1,167,467. The annual debt service payments for the fiscal year were \$1,010,874. Tuition revenue pledged in fiscal year 2011 was \$1,322,674 for state institution bonds.

General revenue bonds are payable from a pledge of net revenues derived by the Campus from the operation of the facilities constructed with the bond proceeds. General revenue bonds may also be payable from a pledge of additional funds. Additional funds are all available funds and academic fees of the Campus which are not (i) otherwise designated or restricted; (ii) funds derived from appropriations; and (iii) tuition funds pledged to the repayment of state institution bonds. Pledged net revenues for general revenue bonds in fiscal year 2011 were \$2,486,856.

The Campus has secured insurance contracts for revenue bonds which guarantee payment of principal and interest, in the event such required payment has not been made, for a period equal to the final maturity of the bonds. Certain of the bonds payable are callable at the option of the Campus.

The Campus believes it is in compliance with all related bond covenants of its issued debt.

The scheduled maturities of the Campus bonds payable by type are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
State Institution Bonds			
2012	\$ 650,000	\$ 468,313	\$ 1,118,313
2013	620,000	444,875	1,064,875
2014	645,000	418,644	1,063,644
2015	665,000	390,475	1,055,475
2016	695,000	361,312	1,056,312
2017-2021	3,490,000	1,328,456	4,818,456
2022-2026	3,540,000	551,878	4,091,878
2027-2030	790,000	89,269	879,269
Total	<u><u>\$ 11,095,000</u></u>	<u><u>\$ 4,053,222</u></u>	<u><u>\$ 15,148,222</u></u>

On March 3, 2011, the Campus issued \$860,000 state institution bonds for various renovation projects.

Also on March 3, 2011, the Campus issued \$675,000 state institution bonds refunding bonds to partially advance refund the Series 2001B state institution bonds maturing from July 1, 2012 to July 1, 2021 and callable July 1, 2011. The refunding transactions resulted in a deferred loss on refunding of \$23,685, an aggregate debt payment reduction of \$69,678 over the next eleven years and an economic gain of \$73,614.

The refunding bonds were issued to purchase securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments related to \$700,000 of Campus bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets.

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	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Revenue Bonds			
2012	\$ 1,130,000	\$ 1,354,126	\$ 2,484,126
2013	1,180,000	1,304,136	2,484,136
2014	1,225,000	1,257,124	2,482,124
2015	1,285,000	1,202,761	2,487,761
2016	1,335,000	1,150,711	2,485,711
2017-2021	6,805,000	4,831,232	11,636,232
2022-2026	7,115,000	3,344,432	10,459,432
2027-2031	3,185,000	2,070,281	5,255,281
2032-2036	4,080,000	1,176,000	5,256,000
2037-2038	1,950,000	154,875	2,104,875
Total	<u>\$ 29,290,000</u>	<u>\$ 17,845,678</u>	<u>\$ 47,135,678</u>

Notes Payable

Notes payable consisted of the following:

Campus note payable to acquire energy savings equipment and lighting retrofit, dated December 2008, payable in annual installments of \$51,581 subject to amount drawn at any given time, matures April 2017, fixed interest rate of 3.00%.

\$ 357,058

Campus note payable for energy efficiency projects, dated September 2010, payable in annual installments of \$9,811 at no interest, matures September 2014.

37,284
\$ 394,342

The scheduled maturities of the notes payable are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 49,345	\$ 12,049	\$ 61,394
2013	50,530	10,862	61,392
2014	51,752	9,641	61,393
2015	51,047	8,383	59,430
2016	44,495	7,087	51,582
2017 - 2020	<u>147,173</u>	<u>14,592</u>	<u>161,765</u>
Total	<u>\$ 394,342</u>	<u>\$ 62,614</u>	<u>\$ 456,956</u>

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Notes to Financial Statements

Note 10 - Long-Term Liabilities

Long-term liability activity was as follows:

	<u>June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2011</u>	<u>Due Within One Year</u>
Bonds and notes payable					
State institution bonds	\$ 10,805,000	\$ 1,535,000	\$ 1,245,000	\$ 11,095,000	\$ 650,000
Revenue bonds	<u>30,375,000</u>	<u>-</u>	<u>1,085,000</u>	<u>29,290,000</u>	<u>1,130,000</u>
	41,180,000	1,535,000	2,330,000	40,385,000	1,780,000
Add: unamortized bond premiums	483,476	88,685	17,268	554,893	23,452
Less: unamortized bond discounts	19,908	-	2,212	17,696	2,212
Less: unamortized loss on refunding	<u>-</u>	<u>23,685</u>	<u>-</u>	<u>23,685</u>	<u>2,185</u>
Total bonds payable	<u>41,643,568</u>	<u>1,600,000</u>	<u>2,345,056</u>	<u>40,898,512</u>	<u>1,799,055</u>
Notes payable	<u>273,360</u>	<u>159,363</u>	<u>38,381</u>	<u>394,342</u>	<u>49,344</u>
Total bonds and notes payable	<u>41,916,928</u>	<u>1,759,363</u>	<u>2,383,437</u>	<u>41,292,854</u>	<u>1,848,399</u>
Other liabilities					
Accrued compensated absences	1,007,262	552,607	538,765	1,021,104	479,919
Federal loan liability	<u>840,293</u>	<u>4,636</u>	<u>-</u>	<u>844,929</u>	<u>-</u>
Total other liabilities	<u>1,847,555</u>	<u>557,243</u>	<u>538,765</u>	<u>1,866,033</u>	<u>479,919</u>
Total long-term liabilities	<u>\$ 43,764,483</u>	<u>\$ 2,316,606</u>	<u>\$ 2,922,202</u>	<u>\$ 43,158,887</u>	<u>\$ 2,328,318</u>

Additional information regarding bonds and notes payable is included in Note 9.

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Notes to Financial Statements

Note 11 - Risk Management

The Campus has a comprehensive risk management program which incorporates the fundamentals of risk identification, risk evaluation, risk control and risk financing alternatives in reducing loss potential. The risk management office mitigates the financial consequences of physical, human, and financial loss by purchasing insurance through the State Budget and Control Board, Office of the Insurance Reserve Fund (IRF). As needed, the IRF policies are supplemented by the purchase of policies through the private insurance market. Several sections of the South Carolina Code of Laws authorize and require the State Budget and Control Board, through the IRF, to provide insurance to governmental entities. These statutes in turn require most state entities to purchase insurance through the IRF. These sections include:

Title 1 - Administration of Government, Section 1-11-140 - 141. Authority to provide tort liability insurance to governmental entities, their employees, and charitable medical facilities.

Title 1 - Administration of Government: Section 1-11-147. Automobile Liability Reinsurance.

Title 10 - Public Buildings and Property: Section 10-7-10 through 10-7-40. Authority to insure public buildings and contents.

Title 10 - Public Buildings and Property: Section 10-7-12. Authority to purchase reinsurance.

Title 10 - Public Buildings and Property: Section 10-7-130. Authority to hold monies paid as premiums for the purpose of paying Insured losses.

Title 11 - Public Finance: Section 11-9-75. Debt Collection Procedures.

Title 15 - Civil Remedies and Procedures: Section 15-78-10 through 15-78-150. S.C. Governmental Tort Claims Act. Authority to provide liability insurance.

Title 38 - Insurance: Section 38-13-190. Requires South Carolina Insurance Department Audits of Insurance Reserve Fund Finance.

Title 59 - Education: Section 59-67-710 & 59-67-790. Authority to insure school buses and pupils transported by school bus.

Title 59 - Education: Section 59-67-790. Pupil Injury Fund.

The IRF functions as a governmental insurance operation with the mission to provide insurance specifically designed to meet the needs of governmental entities at the lowest possible cost. The Insurance Reserve Fund operates like an insurance company, by issuing policies, collecting premiums (based on actuarially calculated rates), and by paying claims from the accumulated premiums in accordance with the terms and conditions of the insurance policies it has issued.

All premiums received by the IRF are deposited with the Office of the State Treasurer where the funds are maintained as the IRF Trust Account. By statutory requirement, these funds are to be used to pay claims and operating expenses of the fund. The Office of the State Treasurer is responsible for investing these funds. The costs of settled claims have not exceeded the Campus' insurance coverage in any of the past three years.

The IRF uses no agents, brokers, or advertising, and does not actively solicit accounts. The lack of a profit motive and the lack of acquisition expenses such as agents' commissions, along with the use of the investment income in rate determination allows the Insurance Reserve Fund to maintain the lowest possible rate structure. Not all governmental entities elect to purchase their insurance through the Insurance Reserve Fund. The South Carolina Tort Claims Act allows political subdivisions of the State access to other mechanisms to meet their insurance needs at their discretion. Some entities participate in other self-insurance pools, some purchase commercial insurance, and some elect to self-insure their insurance exposures.

The various types of property insurance policies maintained by the Campus include: Building and Personal Property, Inland Marine, Data Processing Equipment, Business Interruption and Builders' Risk. Additionally, Risk management maintains a variety of casualty insurance policies including Automobile and Aircraft Property Damage and Liability, Directors and Officers Liability, General Tort Liability, Medical Professional Liability, an Employee Fidelity Bond, and Student Workers' Compensation.

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Notes to Financial Statements

Note 12 - Operating Expenses By Function

Operating expenses by functional classification are summarized as follows:

	Salaries and Wages	Fringe Benefits	Services and Supplies	Utilities	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 10,711,523	\$ 2,938,011	\$ 1,146,988	\$ -	\$ 184	\$ -	\$ 14,796,706
Research	135,444	31,487	274,770	-	1,642	-	443,343
Public service	1,218,372	304,737	505,670	-	2,853	-	2,031,632
Academic support	1,474,275	410,214	680,183	-	2,050	-	2,566,722
Student services	2,818,563	798,874	1,507,393	-	402	-	5,125,232
Institutional support	1,821,501	526,471	1,480,413	-	486	-	3,828,871
Operation and plant maintenance	1,158,243	363,566	1,840,233	1,175,368	61	-	4,537,471
Auxiliary enterprises	580,507	150,824	2,375,271	538,137	229	-	3,644,968
Scholarships and fellowships	12,750	160,203	16,710	-	1,047,475	-	1,237,138
Depreciation	-	-	-	-	-	3,185,099	3,185,099
Total operating expenses	<u><u>\$ 19,931,178</u></u>	<u><u>\$ 5,684,387</u></u>	<u><u>\$ 9,827,631</u></u>	<u><u>\$ 1,713,505</u></u>	<u><u>\$ 1,055,382</u></u>	<u><u>\$ 3,185,099</u></u>	<u><u>\$ 41,397,182</u></u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Board of Trustees
University of South Carolina
Columbia, South Carolina

We have audited the financial statements of the business-type activities of the University of South Carolina - Aiken (the Campus) a campus of the University of South Carolina, as of and for the year ended June 30, 2011, which collectively comprise the Campus' basic financial statements, and have issued our report thereon dated December 7, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Campus is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Campus' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Campus' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Campus' internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Campus' financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Campus' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Trustees and the Southern Associations of Colleges and Schools and is not intended to be and should not be used by anyone other than those specified parties.

Elliott Davis, LLC

Columbia, South Carolina
December 7, 2011